Ottawa

Office of the Auditor General
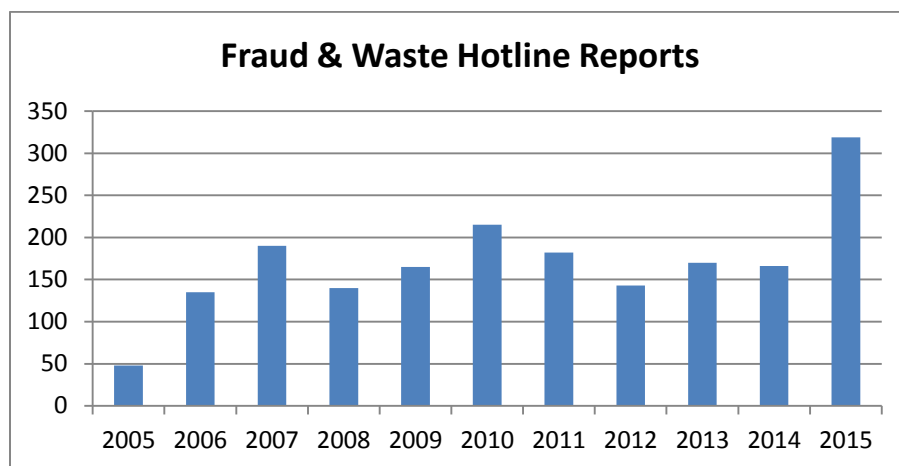
Report on the Fraud and Waste Hotline

Tabled at Audit Committee – June 20, 2016

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2015 Fraud and Waste Hotline Report Highlights

Fraud & Waste Hotline Reports

Main Points

- 319 reports made to the Hotline in 2015
- 92% increase in activity over the previous year
- Highest number of annual reports ever received since the Hotline was launched in 2005.
- 57% of reports came from public
- 43% of reports came from employees

Top Six Report Categories

Unauthorized use or miscue of City property, information or time	**84**
Violation of laws, regulations, policies, procedures	**39**
Unethical conduct or conflict of interest	**26**
Suggestions for improvement	**24**
Theft, embezzlement, fraud	**21**
Health, safety environment	**7**

Results

- 6 City employees terminated
- 1 employee resigned
- Other disciplinary action ranging from discussions to suspensions

Description of the Hotline

The City's Fraud and Waste Hotline (FWH) was launched on November 1, 2005, first to facilitate the reporting of suspected fraud or waste by employees. Council later made the Hotline available to the public in May 2009. The Hotline is a confidential and anonymous service that allows any employee or member of the public to report incidents 24 hours a day, 7 days a week. The Hotline is operated independently by a third party and is accessible either by phone or the Internet.

Based on research of leading ethical practices, including the Institute of Internal Auditors (IIA) and practices employed in other municipalities, an anonymous reporting mechanism is a good component of a mature ethics management framework. As such, the Fraud and Waste Hotline demonstrates sound management practice, and reports have led to audits and investigative reviews, as well as disciplinary actions. We have also found that employees and the public are well aware of the Hotline and its purpose. They view it as an important component in maintaining a strong ethical culture at the City. The Hotline may also mitigate ethical risks by discouraging potential wrongdoers and identifying ethical violations when they occur. Although not necessarily the main objective of the Hotline, it also results in savings by preventing potential fraud and abuse. However, it is not always possible to quantify the impact of savings realized through the Hotline. A significant value of the Hotline continues to be improving the ethical culture at the City and changing attitudes to deter fraud and waste.

Hotline Statistics

In 2015, 319 reports were made to the Hotline. This represented a 92% increase in the number of reports from 2014. There were 184 reports submitted by members of the public and 135 reports were submitted by employees of the City of Ottawa.

The reports submitted by employees also include any cases reported by management as required by the policy. In 2015, 13 cases were reported by management.

Table 1: Reports by reporter type

Reporter type	Number of Reports	Percentage
Public	184	58 %
Employee	135	42 %
Total	319	100 %

Table 2: Reports by method of submission

Method of submission	Number of reports	Percentage
Internet	184	58 %
Phone	135	42 %
Total	319	100 %

The Fraud and Waste Hotline has the functionality to facilitate anonymous two-way communication that allows reporters to access their report after submitting the original report. This feature allows the reporter to submit additional information, track the progress of the case, respond to any follow-up questions and receive the outcome of their report. In 2015, 150 reporters, representing 47% of all reports, accessed their report after submission of the original report. This would appear to indicate that reporters are interested in submitting additional information, tracking the progress of the report and/or reviewing the outcome of the reports.

Table 3: Reporters who subsequently accessed their report

Reviewed report	Number of Reports	Percentage
Yes	150	47%
No	169	53%
Total	319	100%

Summary of type of reports

Table 4 below summarizes the number of reports received to December 2015 by report category since the inception of the Fraud and Waste Hotline in 2005.

Table 4: Fraud and Waste Hotline reports as at December 31, 2015

Report Category	2005 to 2011	2012	2013	2014	2015	Total
Harm to people or potential harm to people	2	4	1	1	2	10
Health and safety, environment	24	4	6	1	7	42
Alcohol or drug use or other substance abuse	12	5	1	1	0	19
Theft, embezzlement, fraud	141	12	25	12	21	211
Unauthorized use or misuse of City property, information, or time	236	25	50	40	84	435
Manipulation or falsification of any data	22	2	5	1	1	31

Report Category	2005 to 2011	2012	2013	2014	2015	Total
Unethical conduct or conflict of interest	127	7	5	13	26	178
Violation of laws, regulations, policies, procedures	119	34	30	31	39	253
Financial reporting and accounting	6	2	4	2	0	14
Management/Supervisor	15	7	1	2	2	27
Suggestions for improvement	174	19	10	8	24	235
Suggested areas for audit	84	12	6	3	3	108
Other *	113	16	26	51	110	316
Total	1,075	**149**	**170**	**166**	**319**	**1,879**

* The "Other" category includes reports related to social assistance (42 in 2015), to water bills (17 in 2015) and to organizations outside the Office of the Auditor General's jurisdiction (13 in 2015) such as Ottawa Police, Ottawa Public Health, Ottawa Public Library, and Ottawa Community Housing Corporation. This category also includes reports that were not related to City services (26 in 2015) such as potential frauds committed by other member of the public.

Issues arising from the Hotline

This section includes summaries of examples of fraud and waste related to City services where reports were found to be substantiated and investigations concluded in 2015. These include results from five reports from 2014. Where reports are found to be substantiated, any disciplinary action taken is the responsibility of management. Where management has taken action, the outcomes are noted below and have been grouped by typical categories.

Theft and related issues

In the 2014 Report on the Fraud and Waste Hotline it was reported that an employee violated cash handling procedures and was terminated. The terminated employee has since been charged.

There were seven cases of theft and related issues in 2015.

- Two cases involved theft by employees as follows:

  o Two employees stole copper and admitted to selling it for money. Both employees were terminated.

  o An employee stole $68 from a City facility. The employee was terminated.

- Five cases involved unsolved theft of property at City facilities as explained below:

  o Property worth an estimated value of $13,000 was stolen from parked City vehicles during a break-in at a City facility. The stolen property was not recovered. The fence and vehicles were repaired.

  o Equipment valued at $2,000 was stolen from a City facility. The results of the investigation were inconclusive.

  o Property worth an estimated value of $600 as well as consumable materials were stolen during a break-in at a City facility. The stolen property was not recovered.

  o Vehicles were broken into at a City facility and equipment, tools and parts were removed. All missing equipment and tools were found near the facility, however the parts were not.

  o Chains, keys and fuel operating buttons were stolen from a City of Ottawa facility.

As a result of these break-ins, enhanced security measures or additional controls were put in place.

Manipulation or falsification of data

There was one case where an employee falsified data in a provincial database to conceal the fact that assigned work was not being completed. The employee was terminated. The City informed the Province of the corrupted data and the errors were corrected.

Unauthorized use or misuse of City property or time

There were 17 cases involving 17 employees where there was unauthorized use or misuse of City property or time. Management found that policies and procedures were not consistently followed as described below:

- There were eight cases relating to employees who did not use time or leave in conformance with policies as noted below:

  - An employee claimed sick leave to work at a second job. The employee was terminated.

  - When unable to find a replacement for a planned vacation, an employee called in sick for one day and did not show up for work on another day. The employee was terminated.

  - An employee worked for an external employer and attended a training session while on medical leave. The employee also did not submit the appropriate leave forms. The employee resigned.

  - An employee took leave without submitting the required leave forms. The hours were recovered from the employee, and supervisors were reminded to ensure that time taken off by employees complies with the collective agreement and organizational policies.

  - An employee did not advise their supervisor when taking time off to pursue personal engagements on two different days. A written warning letter was issued to the employee.

  - Although the work was required and was completed, overtime guidelines were not followed. Both the employee and supervisor received a written warning and were instructed on the proper overtime procedures.

  - An employee was habitually late for work. The employee received a letter of expectation regarding absences and hours of work.

  - An employee did not provide a medical certificate when claiming sick leave. The employee was provided with a letter of expectation regarding future attendance.

- There were the following four cases relating to use of City vehicles that were not in conformance with policies.

- o An employee drove the company vehicle home during meal breaks when working in the vicinity. The Code of Conduct was discussed with the employee who was instructed not to use the City vehicle to drive home for meal breaks, and the discussion was documented in the employee's file.

- o An employee picked up personal exercise equipment using a City vehicle during a meal break. The employee received an explanation of requirements under the Personal Use of City Vehicles Policy. Branch managers and supervisors were also reminded of their responsibilities under this policy.

- o An employee did not comply with the Personal Use of City Vehicles Policy and picked up a family member using a City vehicle after being delayed due to work. The employee was reminded of their obligations under the Personal Use of City Vehicles Policy.

- o A City vehicle was regularly parked in an unsecured parking lot raising concern about the security of its contents. The vehicle was moved to a secure City of Ottawa facility.

- There were five cases related to misuse of City facilities or use of City resources that was not in conformance to policies.

  - o An employee parked a personal vehicle at a City facility outside working hours. The employee moved the car and was reminded of the Code of Conduct which instructs against the use of City property for personal benefit.

  - o An employee, who in the opinion of the Information Technology department, had high internet use during working hours that was not work-related. The employee was provided with a letter of expectation.

  - o There were two cases where employees were using the City's email system for personal business purposes. In both cases management found that the use was minimal. Both employees were reminded of their responsibilities under the Code of Conduct and the Responsible Computing Policy.

  - o An employee moved City equipment from one facility to another without authorization. The employee was advised of the policy prohibiting removal of site specific equipment.

Conflict of interest or unethical conduct

There were three cases as noted below:

- A supervisor breached a City Code of Conduct principle related to treating employees with respect. The supervisor received a suspension, was demoted out of a supervisory position and was provided training.
- An employee interviewed a candidate with a familial relationship without disclosing the relationship.   A letter of expectation was issued to the employee and the probationary period for the candidate was increased by three months. All department managers and supervisors responsible for interviewing applicants were reminded of their responsibilities under the Employment of Family Members Policy.
- An employee approached another employee for a personal project. The employee was reminded to refrain from approaching other employees regarding personal projects during work time.

Violation of Laws, Regulations, Policies, Procedures

There were six cases that involved employee actions that were not in conformance to various City policies or operating procedures.

- An employee remained in an appointed position without a competition beyond the 12 months allowed by the collective agreement. Management indicated that a competition would be conducted for the position.
- Cheques totalling $48,537 were stored with inadequate security at a City facility. No funds were misappropriated. The Cash Handling Policy and Procedures were reinforced with staff and supervisors.
- Two employees were improperly handling cash containers.   Operating procedures were updated to provide clear direction in order to limit the handling of cash containers to designated staff.
- A few employees tested emergency vehicles without the proper signage. Employees were reminded of operating procedures for test driving vehicles. Management indicated that a policy will be put in place for the test driving of emergency vehicles.
- An employee wore their uniform outside their working hours at a recreational event.   The Code of Conduct and responsibilities when wearing a City uniform were discussed with the employee.

- One employee was seen smoking near the entrance of a City building which is against the City of Ottawa Smoke-Free By-law. Management reminded the employee of smoking regulations outlined in the By-law.

Building Code Violations

There were two cases that related to non-compliance with the Ontario Building Code Act by members of the public.

- A resident constructed a deck without obtaining the required building permit. The owner was given 30 days to apply to obtain a building permit. Upon issuance of the permit, staff would inspect the deck for conformance with the Ontario Building Code.
- A building permit was not posted on a property under renovation as required by the Ontario Building Code Act. The contractor and owner were instructed to post the building permit.

Social assistance

Since 2014, the Office of the Auditor General (OAG) has requested that management review and provide the outcome for social assistance cases received by the Fraud and Waste Hotline. There were seven cases involving individuals who were receiving social assistance benefits to which they were not entitled. In all seven cases, overpayment recoveries were created.

The City's Fraud and Waste Hotline is not necessarily intended to be used for allegations regarding social assistance as there is a dedicated social assistance fraud line at 1-800-394-STOP (7867) for this purpose.

Recommendations and management responses

This section includes issues arising from the review of Hotline reports where the OAG has made recommendations. These recommendations have been provided to management for their response including an estimated timeline for implementation. The status of the implementation will be followed up as part of the OAG's follow-up schedule.

Monitoring of City funding provided to organizations

An organization that received City funding in 2013 did not submit the required 2013 audited financial statements prior to the City providing funding in 2014. The

organization subsequently declared bankruptcy in 2014, and the City did not receive audited financial statements for either year. This situation resulted in the following recommendation and management response.

OAG Recommendation:

That the City ensures that audited financial statements and other eligibility requirements are obtained prior to granting payment of funding as required by policies and procedures.

Management Response:

Management agrees with this recommendation. Staff will ensure that audited financial statements and other eligibility requirements are obtained prior to granting full payment of funding, as required by policies and procedures. Staff will work with organizations should the withholding of funding jeopardize the event and partial payment options will be considered.

Cash handling controls for administration of funds for third parties

$100 collected for a third party by a City facility was reported missing. The investigation was inconclusive. This situation resulted in the following recommendation and management response.

OAG Recommendation:

Where the City agrees to administrate funds for third parties, that the proper cash handling controls are in place to avoid misappropriation of any funds.

Management response:

Finance is currently reviewing the Cash Handling Policy and Procedures and will ensure that the revised policy and procedures provide clearer direction on the collection of non-City funds and that this is reflected in the Cash Handling training. Full implementation of the updated policy and procedure is scheduled for the end of 2016.

Audit resulting from a Fraud and Waste Hotline report

In addition to the above, the annual report presented to Audit Committee on November 26, 2015 included the Audit of the Mackenzie King Bridge Rehabilitation conducted in response to a Hotline report. The audit included 11 recommendations and management agreed with all the recommendations. The details of this audit can be found in the annual report.

Impact of Change to Fraud and Waste Policy

At the June 2015 Audit Committee, direction was provided "that staff inform the members of the Audit Committee when significant changes are made to the Fraud and Waste Policy." In view of this direction, the Office of the Auditor General wishes to highlight a change in City practice which may or may not have been fully anticipated when the *Fraud and Waste Policy* replaced the *Fraud and Other Similar Irregularities Policy* in 2015. Among the changes, the scope of the policy was more tightly defined.

By way of example, in December 2015 a report was made to the Fraud and Waste Hotline which alleged nepotism and unfair job competitions. The Office of the Auditor General forwarded the pertinent details from the report to the City Manager's Office to review and advise on the outcome. City management took the view that "the allegation appears to relate solely to a labour relations matter that falls outside the scope of the City's *Fraud and Waste Policy*" and that "no further action will be taken".

The Office of the Auditor General finds that this interpretation of the new policy is different than how the previous policy had been interpreted. As indicated in table 4, 178 reports of "unethical conduct or conflict of interest" have been received since the inception of the Hotline and until recently all have been investigated.

APPENDIX: Fraud and Waste Hotline Reporting Categories

Harm to people or potential harm to people	Concerns related to physical or mental harm or potential harm to employees or others relating to violence, threat, discrimination, or harassment.
Health and safety, environment	Items related to the safety of people and the protection of the environment in which they work and live.
Alcohol or drug use or other substance abuse	Issues related to alcohol or drug use or other substance abuse.
Theft, embezzlement, fraud	Any act of stealing from an organization or individual, by whatever means, and attempts to conceal it.
Unauthorized use or misuse of city property, information, or time	Items related to the unauthorized use or misuse of City property, equipment, materials, records, internet or harm or threat of harm to City property, equipment, materials, or internet. This would also include abuse of work time or fraudulent use of sick leave.
Manipulation or falsification of any data	Changes (unauthorized or authorized) made to any data, information, records, reports, contracts, or payment documents possibly to cover mistakes or fraud, improve financial / operating / statistical results or to gain financial advantage or unfair advantage in a contract.
Unethical conduct and conflict of interest	Unethical or dishonest conduct by any person at any level of the organization and any situation or action of an employee that puts them in conflict, or could be perceived as putting them in conflict, with the interests of the organization.
Violation of laws, regulations, policies, procedures	Violation of any law, rule, or policy set down by an organization, regulatory authority including securities commissions, or any level of government.
Financial reporting and accounting	Items related to the accuracy and completeness of financial statements and other financial reporting to the Board of Directors, Board of Governors, or other governing body, and to regulatory bodies or

	the public (e.g. securities regulators, tax authorities, government departments, annual public reports).
Management/Supervisor	Any issues, concerns or comments related to the level of support received through the actions or inactions of your direct managers and/or supervisors.
Suggestions for improvement	Suggestions to improve any aspect of the organization including ideas, concerns, or comments related to Municipal Services and Products, Customer Service, and any other suggestions, to aid the attainment of its objectives, or to manage its risks.
Suggested areas for audit	Any suggestion to audit any area of the organization.